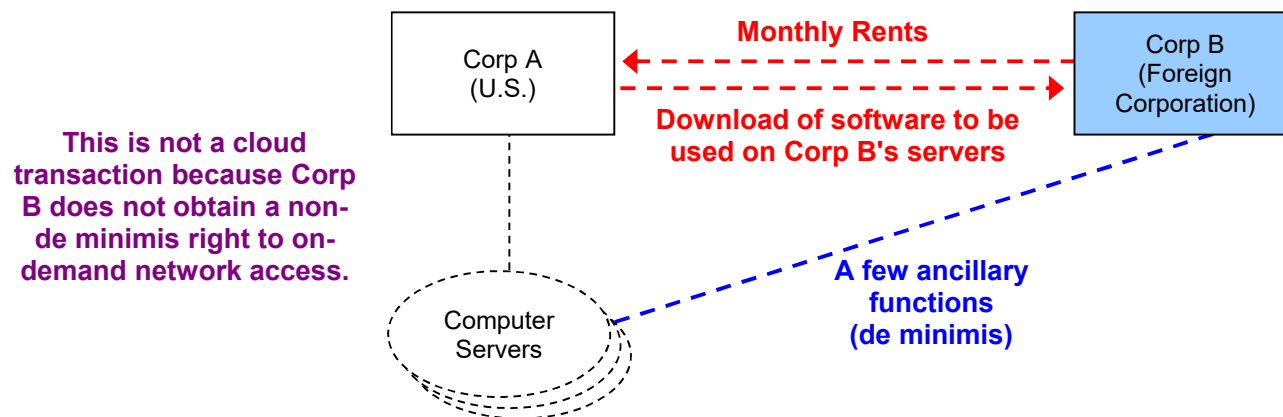


**Prop. Reg. 1.861-19(d),
Example 7**

**Downloaded Word Processing,
Etc.: Lease of Copyrighted
Article (e.g., Office 365)**

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Corp A provides Corp B word processing, spreadsheet, and presentation software that is functionally similar to the software in Example 6. The software is made available for access over the internet but only to download the software onto a computer or onto a mobile device in the form of an app. The downloaded software contains all the core functions of the software. Employees of Corp B can use the software on their computers or mobile devices regardless of whether their computer or mobile device is online. When online, the software provides a few ancillary functions that are not available offline, such as access to document templates and data collection for diagnosing problems with the software. Whether working online or offline, Corp B employees can store their files only on their own computer or mobile device, and not on Corp A's data storage servers. Because the software provides near full functionality without access to Corp A's servers, it requires more computing resources on employees' computers and devices than the app in Example 6. Corp B's employees can also download updates to the software as part of the monthly fee arrangement. Upon termination of the arrangement, an electronic lock is activated so that the software can no longer be accessed.

The provision of the software constitutes a lease of a copyrighted article under Reg. 1.861-18. See Reg. 1.861-18(h)(4). The access to the online ancillary functions otherwise would constitute a cloud transaction under Reg. 1.861-19(b), but the access to these functions is de minimis in the context of the overall arrangement, considering that the core functions are available offline through the downloaded software. Because there is no cloud transaction described in Reg. 1.861-19(b), Reg. 1.861-19 does not apply.

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